American Property Casualty Insurance Association
INSURING AMERICA apci.org

July 15, 2024

Ms. Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street, SW, 8th Floor
Washington, DC 20024

Re: Request for Input on the FHLBank System Mission

Dear Director Thompson:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to provide input in response to the Federal Housing Finance Agency's (FHFA) request for information on the mission of the Federal Home Loan Bank (FHLBank) System. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

Insurance companies have been members of the FHLBanks since the system was founded in 1932. As of year-end 2022, over 550 U.S. insurers were FHLBank members, and property casualty insurers made up nearly half of those insurers.[1] Congress made the decision to permit insurer participation, and Congress has declined numerous opportunities over the years to restrict insurer membership in the FHLBanks. On several occasions the FHFA has also explored questions of property casualty insurer eligibility, and we appreciate that the FHFA has always wisely chosen not to recommend major changes to Congress. Consistent with congressional intent, it is critical that any changes to the FHLBanks' mission statement and guidelines continue to allow full property casualty insurer membership in the FHLBanks.

Insurers play an important role in furthering the FHLBanks' mission to support housing finance and community investment. Insurers routinely purchase mortgage loans and mortgage-backed securities, which benefits the housing market by giving mortgage originators more capacity to underwrite new loans. At year-end 2022, the insurance industry as a whole had exposure to residential mortgage loans totaling over $62 billion, along with over $200 billion of exposure to multifamily/apartment mortgages.[2] In total, U.S. insurers reported $239.6 billion in assets pledged as collateral to the FHLBank system at year-end 2022.[3]

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[1] *Increase in U.S. Insurers' Federal Home Loan Bank Membership and Exposure in 2022*, National Association of Insurance Commissioners (NAIC) Capital Markets Special Report (June 21, 2023); available here: https://content.naic.org/sites/default/files/capital-markets-special-reports-fhlb-ye2022.pdf

[2] *U.S. Insurance Industry's Mortgage Loan Exposure Rises at Year-End 2022 as Commercial Real Estate Trends Deteriorate*, NAIC Capital Markets Special Report (June 12, 2024); available here: https://content.naic.org/sites/default/files/capital-markets-special-reports-cre-ye2022.pdf

[3] *Increase in U.S. Insurers' Federal Home Loan Bank Membership and Exposure in 2022*

Current rules appropriately require that insurers have an adequate nexus to the FHLBanks' housing finance mission. FHLBanks provide insurers with a low cost and secured source of financing that often primarily serves as a source of liquidity for insurers. This is especially important in years like 2021, 2022, and 2023 for which property casualty insurers are paying claims arising from multiple natural disasters coupled with rising inflation and construction costs. As a result of these increased costs, U.S. homeowners insurers posted a 110.9% combined ratio in 2023[4] – meaning homeowners insurers paid out $110.90 in losses and expenses for each $100 of premiums received from policyholders.

In the face of these economic headwinds, FHLBanks provide critical liquidity to member insurers, which has the added benefit of often being viewed upon favorably by rating agencies. The availability of FHLBank liquidity helps insurers avoid having to sell assets when markets are down in order to pay claims. This liquidity helps make homeowners insurance more affordable and, given that homeowners insurance is generally needed to obtain a mortgage, thus makes homeownership more affordable. Accordingly, restricting insurer membership in the FHLBanks could have the unintended and regressive consequences of making insurance and homeownership less affordable. Any changes to the FHLBanks' mission statement and guidelines therefore must continue to allow full property casualty insurer membership.

Finally, if the FHFA is considering recommending expansion of membership eligibility to include certain non-bank entities such as mortgage banks, REITS, and FinTech companies, the FHFA should proceed carefully when considering whether to admit unregulated entities to FHLBank membership. Banks and insurers are both heavily regulated for solvency, so careful consideration must be given before potentially extending membership to new, unregulated entities.

Thank you for your consideration of our comments. APCIA looks forward to continuing to work with the FHFA, the FHLBanks, and our joint member insurers in support of the FHLBank system's important mission.

Sincerely,

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[4] *US property and casualty underwriting losses narrow as key lines still struggle*, S&P Global (May 15, 2024); available here: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-property-and-casualty-underwriting-losses-narrow-as-key-lines-still-struggle-81646779